# NAVAL POSTGRADUATE SCHOOL
## Monterey, California


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**CAUSES OF REJECTED PAYMENT REQUESTS IN THE PREVALIDATION SYSTEM OF THE MARINE CORPS' ACCOUNTING SYSTEM AND RECOMMENDATIONS FOR THEIR ELIMINATION**

by

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December 1997

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On July 1, 1995, the Defense Finance and Accounting Service fielded the On-line Prevalidation System for processing vendor payment requests. Its purpose was to prevent new Negative Unliquidated Obligation and Unmatched Disbursements records by comparing disbursement requests to obligations prior to payment. The Objectives of this thesis were to determine the causes of rejected payment requests by analyzing sample data drawn from Marine Corps Forces, Atlantic's Operations and Maintenance appropriation and to recommend ways to improve the prevalidation process so that obligation validation is more efficient and effective. Research included an investigation into the background of the prevalidation system and an analysis of UMDs and NULOs before and after the implementation of the OPV System. Seven causes of rejected payment requests were identified, along with the penalty interest charged as a result of document numbers remaining on the Rejected Payment Authorization Request Report. It was observed that the formation of new UMDs and NULOs has decreased as a result of OPV's implementation. While the disbursements that are prevalidated generally do not result in problem disbursements, only a portion of all disbursements is prevalidated. Lowering thresholds at which disbursements must be prevalidated and expanding the types of payments that are subject to prevalidation will improve the credibility of DoD financial management and further decrease problem disbursement levels.

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# CAUSES OF REJECTED PAYMENT REQUESTS IN THE PREVALIDATION SYSTEM OF THE MARINE CORPS' ACCOUNTING SYSTEM AND RECOMMENDATIONS FOR THEIR ELEIMINATION

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# ABSTRACT

On July 1, 1995, Defense Finance and Accounting Service, Kansas City fielded the On-line Prevalidation System for processing vendor payment requests. Its purpose was to prevent new Negative Unliquidated Obligations and Unmatched Disbursements by comparing disbursement requests to obligations prior to payment. The objectives of this thesis were to determine the causes of rejected payment requests by analyzing sample data drawn from Marine Corps Forces, Atlantic's Operations and Maintenance appropriation and to recommend ways to improve the prevalidation process so that obligation validation is more efficient and effective. Research included an investigation into the background of the prevalidation system and an analysis of UMDs and NULOs before and after the implementation of the OPV System. Seven causes of rejected payment requests were identified, along with the penalty interest charged as a result of document numbers remaining on the Rejected Payment Authorization Request Report. It was observed that the formation of new UMDs and NULOs has decreased as a result of the OPV's implementation. While the disbursements that are prevalidated generally do not result in problem disbursements, only a portion of all disbursements is prevalidated. Lowering thresholds at which disbursements must be prevalidated and expanding the types of payments that are subject to prevalidation will improve the credibility of DoD financial management and further decrease problem disbursement levels.

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# I. INTRODUCTION

In 1994, Congress passed the Department of Defense Appropriations Act FY1995, Public Law 103-335. Section 8137 required the Secretary of Defense to develop and implement a plan to match disbursements to corresponding obligations prior to making payments. The law stated that by July 1, 1995, DoD disbursing offices must prevalidate all contractor/vendor disbursements that exceed $5 million before paying the invoices. [Ref. 1] On October 1, 1995 Defense Finance and Accounting Service (DFAS) lowered the threshold for prevalidation to $1 million for all disbursing stations except for the DFAS-Columbus Center, a Navy disbursing center. However, DFAS-Kansas City (DFAS-KC) policy, published May 30, 1995, took the prevalidation requirement one step further by requiring all contractor/vendor invoices received by the disbursing unit to be prevalidated. The prevalidation process requires disbursing personnel to determine, prior to making payments, that each line of accounting data to be charged represents a valid obligation, and that the unliquidated obligation balance is equal to or greater than the requested disbursement.

In response to Public Law 103-335, the Secretary of Defense directed the implementation of department-wide accounting policies that stated:

> If disbursements exceed obligations and the appropriation manager does not have sufficient unobligated balances available, payments will be stopped immediately until the condition has been corrected. In addition, if disbursements exceed obligations and the appropriation manager or fund holder has sufficient unobligated balances available, an obligation will be required to cover such disbursements. [Ref. 2]

This standard operating procedure intensified the ongoing effort to reduce Unmatched Disbursement (UMD) and Negative Unliquidated Obligation (NULO) levels within each of the services and to validate the DoD accounting records to preclude further congressional activity. A UMD is any disbursement received by an accounting office that cannot accurately be matched to or posted against an obligation record. A NULO occurs when recorded expenditures exceed obligated amounts. A lack of awareness existed for how appropriated military funds were spent, resulting in an inability to determine, with any degree of certainty, the validity of a received invoice and balance of funds at the end of the fiscal year. The Department of Defense was making payments on invoices without verifying the existence of an obligation or the availability of funds. The UMD/NULO issue became an intensely recognized problem in recent years primarily due to the dissolution of the "M" accounts by Congress. When Congress dissolved the "M" accounts, it required all military agencies and commands to maintain records for each expired appropriation account reflecting obligated and unobligated balances for 5 years and cancelled all obligated and unobligated balances for appropriation accounts 5 years after the budget authority expired. This meant that DoD had to properly match all disbursements with obligations within its accounts.

On July 1, 1995, the DFAS-KC fielded the On-line Prevalidation System for processing the payment of vendor invoices. The primary purpose of the On-line Prevalidation System was to prevent new NULO and UMD records from materializing. "The On-line Prevalidation System, an automated database which contains the Standard Accounting, Budgeting, and Reporting System (SABRS) financial status of purchase

documents issued by a command, queries all requests for payment sent to the Service DFAS prior to payment being made." [Ref. 3] If obligations do not exist in SABRS or are insufficient to cover the invoices, DFAS denies payment and forwards the record to the Rejected Payment Authorization Request Report for review by the unit comptroller's office.

Prior to the implementation of the prevalidation system, payments were made on a substantial number of invoices without the requisite obligations. Many cases went undiscovered for weeks or months after the payment. As a result, inaccurate command financial records that required labor-intensive research and correction remained several months (even years) after purchases and payments. In some cases, the results were regarded as statutory violations of the Anti-Deficiency Act because the financial accounting records were so inaccurate that commands overspent their budget authority.

The implementation of the On-line Prevalidation System was an attempt to reduce NULO and UMD levels by identification of errors before invoices were paid. Previous procedures relied exclusively on individual record keepers to ensure that obligations were entered into SABRS and properly validated. Implementation of the prevalidation system brought about a new way of accounting for the military funds. This system requires fund administrators to ensure enough money exists in the command budget authority to cover purchases before the funds can be expended. The prevalidation system was initiated to control the serious problems that had plagued the accounting system and force unit-level responsibility for budget accounting.

## A. THESIS OBJECTIVE

Ideally, the prevalidation system is an effective solution to the NULO and UMD problem. While it is true that implementation of the prevalidation system does decrease the number of new NULO and UMD records, it also causes an increase in the amount of money that the DoD pays in interest penalties due to late vendor disbursements. If a document fails prevalidation, it is cycled to the prevalidation report generated by the SABRS system. The invoice received will not be paid until the standard document number on the report is properly obligated in the SABRS system. Failure of fund administrators to routinely correct records appearing on the prevalidation report results in lost discounts and increased interest charges due to late payment. The objectives of this research are to determine the causes of payment request rejections in the prevalidation system and to determine methods to improve the prevalidation process so that obligation validation becomes more efficient.

## B. THESIS SCOPE

The scope of this research is limited to the identification of causes of payment request rejections in the Marine Corps' Operations and Maintenance (O&M) appropriation. A brief history of the UMD/NULO issues will be discussed, as will a review of the accounting, prevalidation, and payment process. Sample data were drawn from Marine Corps Forces, Atlantic (MARFORLANT), Camp Lejeune's accounting records and Rejected Payment Authorization Request Reports. One hundred forty-five rejected payment requests totaling $530,158.98 collected from 13 May 1997 to 10 July 1997 were examined in detail for causes of prevalidation failure. In addition,

MARFORLANT February 28, 1997 NULO balances over 180 days old were collected and compared to December 1994 data.

Though prevalidation is an important issue for all military services, no attempt was made to collect or compare data from outside the Marine Corps appropriation. In addition, no attempt was made to associate causes of rejected payments in the Operations and Maintenance, Marine Corps appropriation (O&M,MC) with that of any other appropriation. It is reasonable to assume that there is some commonality of causes leading to prevalidation failure, however.

## C. THESIS METHODOLOGY

The research methodology employed in writing this thesis was primarily inductive, relying chiefly upon archival data obtained from the Marine Corps' Standard Accounting, Budgeting, and Reporting System (SABRS), Department of Defense Inspector General (DODIG) reports, General Accounting Office (GAO) reports, and memorandum records. Identification and research of all Rejected Payment Authorization Requests were completed through the SABRS database. In addition, SABRS was used to identify NULO and UMD status levels. Information was also obtained through interviews with DFAS-KC accounting and disbursing personnel and Marine Corps financial management officials.

## D. CHAPTER OVERVIEW

Chapter II sketches a brief picture of the NULO and UMD history and issues for background into the development of the prevalidation system. Additionally, the

interrelationship between accounting, disbursing and contracting will be described to fully appreciate the complexity of the payment process. The chapter will conclude with an explanation of the prevalidation system purpose and procedures.

Chapter III will be the data analysis chapter and will focus on the specific causes of rejected payment requests identified in the prevalidation failure data sample collected from MARFORLANT.

Chapter IV will compare NULO and UMD levels from December 1994 to February 1997 and discuss the impact that the prevalidation has had on those levels. In addition, Chapter IV will address many of the current issues relating to implementation of the prevalidation system. Currently, such issues include identifying a minimum dollar threshold for automatic prevalidation adjustment, late vendor payments, and increased interest charge penalties due to implementation of the On-line Prevalidation System.

Chapter V addresses recommendations to improve the efficiency of the current prevalidation system. In addition, this chapter summarizes the information presented in this thesis and concludes by addressing any corrective actions taken to date to improve the prevalidation system. Appendices A and B contain the sample data, and Appendix C is a list of acronyms.

# II. BACKGROUND

## A. ACCOUNTING SYSTEM OVERVIEW

### 1. The Transaction Cycle

The accounting transaction cycle identifies a sequence of events utilized to record the obligation and expenditure of funds. It is divided into four specific stages: reservation, obligation, expense, and liquidation. All transactions are processed in the same sequence; however, some transactions accomplish multiple stages simultaneously. "For example, when a supply purchase is made from a Direct Supply Support Center (DSSC), the supply system will pass the transaction to SABRS; SABRS will automatically reserve, obligate, expense and liquidate funds according to the transaction received from the supply system." [Ref. 4] The entire sequences of events involves a cost center, fund administrator (activity comptroller), and the Authorization Accounting Activity/bill paying activity (AAA). Generally, the AAA is DFAS or, before DFAS consolidated all of its satellite accounting offices, a local Defense Accounting Office (DAO).

The accounting transaction cycle begins with an order for materials or services. To place an order for materials or services, a requisition form is completed, which identifies the requesting unit, an item description, and its estimated cost. Appropriation data, a standard document number (SDN), and a job order number (JON) are assigned to the order for accounting purposes. The order is recorded in the cost center's local memorandum records/logs, which are "unofficial records used to provide real-time

financial status and serve as an independent source of data to reconcile against AAA/OPLOC records." [Ref. 5] Subsequently, a copy of the order is forwarded to the command comptroller who creates a reservation of funds in the official accounting system, SABRS.

> A **reservation** is an administrative reduction of the unreserved balance. This action sets aside funds for something that will be bought in the future. A reservation of funds does not obligate the government to acquire the goods or services for which the funds are reserved. [Ref. 5]

The original request is passed to the purchasing authority (i.e. purchasing and contracting office) for action. The purchasing and contracting office negotiates a contract for the purchase of the requested materials or services. Upon contractual agreement, the purchase order is completed, thus ordering the requested materials or services. A copy of the contract/purchase order is forwarded to the comptroller and the disbursing offices. At the comptroller's office an obligation is established in the official accounting system, SABRS. The obligation is automatically cycled to the electronic memorandum records to reserve funds for future payment and to track current balances.

> An **obligation** is a firm commitment to purchase the goods or services described on a source document. When an official document describing a financial transaction exists, the government is liable for the amount shown on the source document. Once funds are obligated they must be deobligated when the original is cancelled or reduced in amount and the supporting documentation is provided to the User for update into the accounting system. [Ref. 5]

Upon receipt of the item from the vendor/contractor, the requesting unit certifies that the requested materials /services are received in acceptable condition. The receiving unit forwards the certified invoice, receiving report, and a copy of the contract or

purchase order to its assigned bill paying activity/disbursing office. At the time the requesting unit accepts the item, an expense occurs.

> An **expense** occurs after goods or services procured by the government have been received and accepted by the purchasing unit. When the vendor delivers the goods or performs the services requested, the receiving unit signs a receiving report, DD form 250, and forwards a copy to the Accounting office. The accounting office then enters an expense into the accounting system for the amount of the goods or services. [Ref. 5]

Designated bill paying offices, usually a DFAS Operating Location (OPLOC), have the responsibility of commercial bill paying. The disbursing office matches the invoice with a copy of the purchase document (forwarded with the certified invoice) and verifies that an obligation is on file. Upon verification that all documentation is valid, a check is mailed, or funds are electronically transferred to the vendor, and a liquidation is entered in the official records.

> A **liquidation** is payment for goods or services used by the Marine Corps. Liquidation occurs after the disbursing officer receives an invoice from a vendor or other government agency that is requesting payment for goods or services provided. Once the disbursing officer receives and validates the claim against the government, payment is made to the vendor. [Ref. 5]

### 2. The Prompt Payment Act

The Prompt Payment Act (Public Law 97-177) became law on May 21, 1982. This Act requires all federal agencies to pay their bills on time, pay interest penalties when payments are made late, and take discounts only when payments are made within the discount period. [Ref. 6]

The payment cycle, generally 30 days, begins on the latest of the following dates: (1) the date a proper invoice is received by the requesting unit designated on the

contract/purchase order, (2) the date the materials are received or the services are performed, or (3) the date the material/services are accepted. Upon receipt of a proper certified invoice and purchase order from the certifying activity, the above key dates are entered into the bill paying activity pending payment computer file. Bills close to the end of the payment period (30 days) and bills eligible for possible discounts are separated from the rest of the pending bills and given priority.

Each invoice and purchase order is audited after initial input to the pending payment file. If essential data are missing, or if no prior obligation was established in the accounting system, corrective action must be taken by the obligating activity before the invoice can be paid. "If expenditures cannot be matched with obligations already established in the AAA record files, they will be cycled to the Unmatched Disbursement File, where they will remain until they are manually reconciled with a matched obligation." [Ref. 5]

Once an invoice has passed initial audit, the Pending Payment File is instructed to hold payment until the end of the payment period. To avoid early payment and reduce Treasury outlays, payment is normally made no earlier than seven days before due date, even if invoices are ready for payment prior to the due date.

On the payment date, the bill paying activity automatically issues a Treasury check to the vendor and generates a NAVCOMPT 634 Expenditure Document to the designated OPLOC and the Centralized Expenditure Reporting Processing System (CERPS). The CERPS database is updated so as to notify the Treasury and OPLOC of the outlay.

### 3. The Anti-Deficiency Act

Title 31 of the United States Code, sections 1341,1342, 1517, constitute the Anti-Deficiency Act.

> The primary purpose of the Anti-Deficiency Act requires that the commander of each agency issue regulations establishing an administrative control system with a two-fold purpose. First, obligations must be kept within the amount of granted budget authority, and secondly, agencies/commands must be able to fix responsibility for making obligations in excess of the budget authority. [Ref. 5]

In addition, section 1517 prohibits any officer or employee from making or authorizing a commitment, obligation, or expenditure in excess of the amount available in an operating budget or allotment or permitted by agency regulations [Ref. 7].

There are numerous ways that violations can occur; however, inadequate internal controls and standard operating procedures are probably the most prevalent. Violations can occur when the amount of expenditures and obligations does not match or when obligations fail to be recorded in a timely, accurate manner. If expenditure balances are greater than obligation balances, but the operating procedures only require auditing of the obligation balance, it is possible expenditures could exceed obligation without detection.

## B. THE NULO/UMD PROBLEM

### 1. Introduction

On March 31, 1994, the Comptroller of the Department of Defense, Dr. John Hamre, issued a memorandum to all military departments stating "as of December 31, 1993, the Department had 23 accounts 'in the red' and another 23 accounts in which disbursements exceeded recorded obligations." [Ref. 2] He further acknowledged that

the military routinely disbursed funds that exceeded available balances. Even when accounts had been in deficit status for several months, DoD financial management procedures permitted continued expenditure of funds against negative account balances. Similarly, funds were expended in excess of recorded obligations. According to Dr. Hamre, "These standard operating procedures are violations of the Anti-deficiency Act and contradictions to acceptable standards in financial management." [Ref. 2] In an attempt to define its financial accounting failures, the DoD cited two primary causes of account imbalances: 1) Negative Unliquidated Obligations; and 2) Unmatched Disbursements.

A **Negative Unliquidated Obligation (NULO)** is defined as a payment that is posted against a standard document number (SDN) in the accounting system, in which the payment exceeds the obligation recorded for that SDN. An **Unmatched Disbursement (UMD)** is a payment recorded by accounting system, which does not have an obligation against which to post. Although there were countless reasons for accounting system inconsistencies, the result was that obligation and liquidation balances did not match. Lack of awareness existed regarding the spending of appropriated military funds. This resulted in an inability to determine, with any degree of certainty, the validity of a received invoice and balance of funds at the end of the fiscal year. The Department of Defense disbursed payments without verifying the legitimacy of payment requests or the availability of funds. When invoices were received by DFAS, disbursing sections did not verify that the appropriate obligation was entered into SABRS. In addition, when

obligations were entered into the system, the designated amount was insufficient to cover the total cost of the received invoice.

### 2. The "M" Account

"Of the $24.8 billion in problem disbursement transactions as of June 30, 1994, approximately $5 billion was related to cancelled appropriations, originally called "M" accounts." [Ref. 8] In 1990, Congress changed the law for reporting on old appropriation accounts because it found that the controls over them were not working as intended. Specifically, DoD (which had most of the "M" accounts, which are merged surplus budget authority accounts) had been expending funds from these accounts without sufficient assurance that authority for such expenditures existed.

> Congress was particularly concerned about (1) the large balances available to DOD in the "M" accounts, which totaled a reported $50 billion at the time of the new law, (2) DOD's access to and routine use of hundreds of millions of dollars from the "M" accounts to cover contract increases, and (3) lack of congressional oversight over these accounts. Congress passed Public Law 101-510 to strengthen its oversight and control over expired appropriations. [Ref. 8]

The law, enacted on November 5, 1990, cancelled, in stages, the budget authority associated with obligations recorded in "M" accounts, with the final cancellation occurring on September 30, 1993. The new law required agencies to maintain records for each expired appropriation account, reflecting obligated and unobligated balances by year, for five years. The Law also mandates the cancellation of obligated and unobligated balances for appropriations accounts five years after the budget authority expires, regardless of whether the goods or services contracted for had been approved or paid for.

Congress, aware of the particular problems with DoD's handling of its "M" accounts, included in the law a requirement that, by December 1991, DoD must audit all its "M" accounts. The primary purpose of the audit was to establish the total balances of the "M" accounts. Based on this requirement, DoD had to properly match all disbursements with the obligations within its accounts. In 1993, DoD had still not properly matched billions of dollars in disbursements to obligations.

As of June 30, 1993, DoD records showed a total of $41 billion in unmatched disbursements. Of the reported total, $22 billion was classified as "undistributed" or non-problem disbursements (disbursements not currently posted/liquidated to a recorded obligation), while the remaining $19 billion was classified as problem disbursements. [Ref. 34] The "unmatched" classification was given to disbursements if "(1) at least one attempt to properly match the disbursement to a corresponding obligation had failed or (2) the recorded expenditures exceeded obligations, thus causing a negative unliquidated obligation." [Ref. 8] The reported $19 billion in problem disbursements became the impetus for reduction efforts.

### 3. Congressional Involvement

DoD financial management was given less attention prior to the period of military downsizing that occurred in the late 1980's and early 1990's. The military had a "spending-spree" attitude, with little concern for where the money was or how the bills got paid. Once downsizing occurred, the services looked to financial managers for ways to save money while maintaining the same operational tempo. Commanders expected their financial managers to know the financial status and balances of their commands.

When the financial managers could not provide accurate answers to the questions of the commanders or the Congress, attention to the financial stability of the military became a intensely debated and scrutinized subject. In fact, the General Accounting Office (GAO) and the Department of Defense, Inspector General (DoDIG), working in conjunction with the Senate Committee on Governmental Affairs, became responsible for surfacing the NULO/UMD issues. The GAO and the Senate Committee on Governmental Affairs continued to focus attention on DoD's obvious and fundamental financial management shortcomings. Items of focus included such topics as merged accounts, prompt payment, overdisbursement of contracts, and problem disbursements in the Department of Defense. As a result, a series of GAO and DoDIG reports on problem disbursements addressed the issue of NULOs and UMDs.

In addition, the Senate Committee on Governmental Affairs, headed by Senator William V. Roth Jr. (Republican, Delaware) and Senator John Glenn (Democrat, Ohio), was directly responsible for instituting such reforms as The Chief Financial Officers Act of 1990 (CFO) and establishing the Defense Business Operations Fund (DBOF). Senator Charles E. Grassley (Republican, Iowa), a leading supporter of Department of Defense financial management reform, recommended that a freeze be mandated on military spending until the problem disbursement issue was resolved and all DoD accounts "in the red" were reconciled. He was responsible for introducing an amendment to the Acquisition Reform Bill H.R. 4650, which states:

> The Secretary of Defense will require each disbursement by the DoD be matched to a particular obligation prior to disbursement of funds. The requirement can only be waived by the Secretary of Defense in the following cases: A disbursement involving deployed forces, a

> disbursement for an operation in a war declared by Congress, a disbursement under any other circumstances for which a waiver is necessary in the interest of national security, as determined by the Secretary and certified by the Secretary to the Congress Defense Committees. [Ref. 9]

### 4. DoD Comptroller Response

In February 1994, the Senior Financial Management Oversight Council met to discuss the Department of Defense's compliance with the Anti-Deficiency Act. In turn, the DoD Comptroller informed the Inspector General of the Department of Defense (DoDIG) of the problem disbursement crisis and requested that an investigation be initiated regarding potential Anti-Deficiency Act violations within several of the accounts. On March 31, 1994, Dr. Hamre, the DoD Comptroller, directed the implementation of new policies on a DoD-wide basis to correct the "unacceptable" condition of the DoD financial accounts. The DoD immediately suspended disbursements for accounts that were "in the red". Initially, 28 accounts were frozen; no payments from those accounts could be made. Dr. Hamre's two new policies were highlighted in the March 31, 1994 Memorandum which stated:

> If disbursements exceed obligations and the appropriation manager does not have sufficient unobligated balances available, payments will be stopped immediately until the condition has been corrected. In addition, if disbursements exceed obligations and the appropriation manager or fund holder has sufficient unobligated balances available, an obligation will be required to cover such disbursements. [Ref. 2]

The Memorandum further stated that, if disbursements exceeded obligations or remained unmatched, an obligation would be required from the fund administrator to cover such disbursements if the unacceptable condition was not corrected within 180 days. This requirement became effective October 1, 1994. However, as of October 1,

1994, negative unliquidated balances (DoD-wide) exceeded $5 billion. If none of these NULOs were resolved by March 31, 1995, DoD activities would have had to withdraw $5 billion from their current fiscal year available funds to cover these NULOs. The Marine Corps would have been required to obligate funds in excess of its available Total Obligational Authority (TOA), if NULOs and UMDs were not corrected prior to 1 April 1995.

However, in a memorandum dated March 29, 1995, Dr. Hamre deferred, until June 1, 1995, the posting of obligations for NULO/UMD records that exceeded 180 days. When NULOs occur at the obligation level, DFAS, in conjunction with the fund administrators, is provided 120 days to research the condition to determine if it is the result of an error. If that effort identifies an error, the error is corrected and no further action is required. If the research effort does not identify an error, the fund administrator is provided an additional 60 days to conduct further research and eliminate the condition. The deferral was intended to allow the fund holders additional time to complete a more thorough analysis of the transactions and fund status to make better informed obligation decisions.

On June 30, 1995 it was time to implement the second phase of the directive, to record obligations and reduce unobligated balances for disbursements that had not been matched to the proper obligation record.

> Obligations for disbursements that have not been matched to the proper obligation but are charged to an appropriation that, by operation of law, is scheduled to close, must be established, recorded, and reported in the official accounting reports prior to the closing of that appropriation without regard to whether 180 days has elapsed following the date of

disbursement, and irrespective of whether the disbursement was made before or after March 31, 1994. [Ref. 10]

Obligations for disbursements that (a) are charged to an appropriation that, by operation of law, is scheduled to close on September 30, 1996 and (b) have not been matched to the proper obligation within 180 days following the disbursement must be established, recorded, and reported in official accounting reports by June 30, 1996. [Ref. 10]

### 5. The Marine Corps' Response

In response to the DoD Comptroller's policy on negative account conditions requiring timely corrective action, a NULO/UMD Working Group was formed and met in January, 1995. The purpose of the working group was to brainstorm the problems and develop a collaborative approach to provide the Marine Corps the necessary resource tools to comply with the forthcoming DoN guidance on NULOs. Over 35 financial managers and accountants from major commands, bases and stations, HQ Marine Corps, and DFAS-KC participated. "They discussed over 30 NULO/UMD related issues in three broad categories: Personnel, Training, and Systems, and over 70 recommendations were categorized as short-term, mid-term, or long-term action to assist in solving the accounting issues." [Ref. 11] With the pending requirement to implement obligating available funds for NULOs/UMDs, immediate action was required to reduce UMD and NULO levels. Due to continued growth experienced in the UMDs and NULOs, the highest priority was given to reducing the numbers.

Effective June 1, 1995, Commandant of the Marine Corps (CMC) directed a suspension of research efforts to resolve old NULO/UMD transactions. The authority

provided was on a one-time basis and would not be extended beyond 30 Sept 1995. This authority did not eliminate the requirement to obligate NULO/UMDs over 180 days.

### 6. DFAS-Kansas City

The goal of accounting is to ensure that actual obligations ultimately match actual expenditures in both the official and unofficial (memorandum) records. During budget execution, numerous factors can affect the accuracy of memorandum accounting records and official accounting records. For example, if an incorrect document number or JON is used on a requisition, the wrong cost center may be charged for the item. Or, as a result of incorrect price estimates, sufficient funds reserved to pay the invoice may not exist, leading to an eventual overobligation and violation of Title 31, Section 1517.

"The Defense Finance and Accounting offices have the principal responsibility for initiating and conducting reviews of unmatched disbursements (UMDs) and negative unliquidated obligations (NULOs), for the purpose of enabling them to be properly recorded in the accounting records or taking other action to have the transaction corrected." [Ref. 12]

In June 1994, DoD mandated a 50% reduction in UMD and NULO levels by June 1995 for all services. DFAS-KC set the baseline for reduction at $850 million in UMDs and $580 million NULOs for all Marine Corps funded activities. The baseline reduction goal included but was not limited to Operations and Maintenance (O&M,MC) and Procurement (PMC) appropriations. DFAS-KC provided HQMC a NULO/UMD October 1994 baseline listing, broken down by command, for all Marine Corps O&M

appropriations, (i.e. Marine Corps operational budget holders (OPBUD)). Table 2.1 identifies the Marine Corps OPBUD Holders' baseline totals for NULOs and UMDs.

**Marine Corps OPBUD Holders**

| | October, 1994 |
|---|---|
| NULO | $ 49,350,000 |
| UMD | $ 52,036,000 |

Table 2.1 Marine Corps OPBUD NULO/UMD [Ref. 11]

In turn, all Defense Accounting Offices (DAO) were responsible for providing the operational budget holders with detailed UMD/NULO listings and assistance in working the lists. NULOs recorded in the accounting system are primarily the responsibility of the fund holder. After obtaining a list of NULOs recorded against the fund holders' authorization, fund administrators were directed to review the NULOs and ensure that an appropriate amount of funds had been obligated. If source documents agreed with the amount obligated, the disbursement transaction history was to be reviewed and reconciled to ensure only valid disbursements are posted to the obligation record. Any suspected duplicate or disbursement transactions posted in error were brought to the attention of the supporting DAO for corrective action.

The fund administrators were also expected to use the lists to determine if any UMDs recorded in the SABRS error file could be matched by simple correction to the document number field or other data elements recorded in error. The SABRS error file contains disbursement records that have failed the edit process and have not been corrected. In order that these error transactions be researched and appropriate action

taken to correct them, the supporting DFAS-KC DAO was to conduct research and obtain source documentation to validate/correct the disbursement record.

The 50 percent reduction goal was achieved. Subsequently, DFAS-HQ mandated another 50 percent UMD/NULO reduction by December 1996. This Marine Corps reduction goal for total problem disbursements of $298 million, which included newly reported problem disbursements, was also achieved. [Ref. 13]

## C. THE PREVALIDATION SYSTEM AND PURPOSE

### 1. The Background

In response to Public Law 103-355, section 8137, the Under Secretary of Defense (Comptroller) issued an implementation plan on February 28, 1995, that required contractor and vendor invoices meeting dollar thresholds to be matched to corresponding obligations before payment. The prevalidation requirement applied to individual invoices with a gross dollar value that exceeded $5 million and were to be paid on or after July 1, 1995. As of October 1, 1995, the threshold was to be lowered to $1 million. "The plan stated that each year, DFAS makes approximately 3,500 payments on invoices exceeding $5 million and 17,000 payments on invoices exceeding $1 million." [Ref. 14] The plan also recognized the need to develop manual procedures for prevalidating disbursements until automated processes could be put in place.

### 2. The Prevalidation Process

The disbursement process starts when a contractor or vendor submits an invoice (formal request for payment) to a disbursing office. Prior to starting the prevalidation process, the disbursing office is required to determine if the contractor is entitled to the

payment. To do this, the disbursing office must ensure (1) that the payments are made only for goods and services authorized by purchase orders, contracts, or other authorizing documents; (2) that the government received and accepted the goods and services; and (3) that the payment amounts are accurately computed. It is responsible for ensuring that accounting data on the payment supporting documents are complete and accurate.

After determining that the contractor is entitled to the payment and the accounting data are complete and accurate, the disbursing office initiates action to prevalidate the payment by matching the disbursement with an obligation in the official accounting record via one of two systems, manual or automated.

In the automated system, both disbursing and accounting functions are performed within the same system, or an interface exists between the disbursing system and the accounting system. In that environment, the request for payment is automatically validated against obligations in the official accounting records prior to payment. In the manual system, no interface exists, and payments are not validated against obligations in the official accounting records before payment of invoices. Both operating systems require disbursing officials to ensure that contractors and vendors are entitled to payment by verifying that the Government has received and accepted goods and services and that payment amounts are accurately computed. Disbursing officials also must determine the lines of accounting to be charged for each payment.

***a. The Automated Process***

The DFAS-Columbus, the primary administrator of contractor and vendor payments (almost 40% of DoD's $160 billion annual contractor and vendor payments),

uses the Mechanization of Contract Administration Services (MOCAS) system to pay all centrally managed contracts. Before July 1, 1995, MOCAS did not interface with the accounting systems that accounted for the funds it paid. Since then, system interfaces have been established between MOCAS and eight major contract accounting systems to prevalidate disbursements made by the DFAS.

#### *b. The Manual Process*

For the manual process, information is exchanged through the use of telephones, fax machines, and mail. Using the manual process, which accomplishes the same tasks as the automated prevalidation process, the disbursing station sends a facsimile with the prevalidation data to the accountable station. Personnel at the accountable station review the accounting data and verify that associated unliquidated obligation balances are equal to or greater than the proposed disbursement amounts. Upon research, review, and obligation the information is transferred back to the disbursing station approved for payment.

### 3. Thresholds

According to two June 1996, GAO audit reports,

> DoD's implementation of the prevalidation program is limited in its ability to resolve Defense's annual multibillion-dollar disbursement problems because there currently is no plan to lower the prevalidation threshold further at DFAS-Columbus, which is responsible for almost 40% of DoD's $160 billion annual contractor and vendor payments. Without lowering the threshold, tens of billions of dollars in disbursement transactions will be processed absent this important accounting control. [Ref. 15]

> To effectively resolve disbursement problems, Defense management must embark on short-term efforts to ensure that the

> prevalidation program covers as many transactions as practical and that basic accounting procedures are followed until DoD has fully implemented its long-term efforts to correct serious weaknesses in accounting and contracting systems. [Ref. 14]

The prevalidation process is intended to eliminate future problem disbursements within DoD and bring disbursing and accounting systems into agreement. While the disbursements that are prevalidated generally do not result in problem disbursements, only a small portion of all disbursements is prevalidated. Lowering thresholds at which disbursements must be prevalidated and expanding the types of payments that are subject to prevalidation will improve the credibility of DoD financial management. The $5 million threshold is too high to ensure that most disbursements will be prevalidated. For example, the DFAS Columbus Center processed "521,262 disbursements totaling over $37.1 billion during the period July 1, 1995 through January 31, 1996. Only 1,157 of those disbursements, totaling $12.4 billion, met the $5 million threshold and were thus prevalidated." [Ref. 15]

Opportunities exist to expand prevalidation to more contract payments as well as other types of payments. The DoD plan addressed only the immediate solution for compliance with section 8137: prevalidating contractor and vendor payments. As automated financial systems are enhanced, the DoD mandated dollar thresholds will be reduced. Since a large volume of transactions fall below the existing dollar thresholds and many of the management control weaknesses and system deficiencies identified in prior audits continue to exist, problem disbursements continue to be created, both on existing contracts and on new contracts.

The Under Secretary of Defense (Comptroller), in his memorandum on "Matching of Obligations to Proposed Disbursements," issued on November 18, 1994, stated that all disbursements should be subject to prevalidation, including transfers between appropriations and other reimbursables. [Ref. 16] Although the DoD recognized the need to eventually prevalidate all disbursements and transfers, it did not address prevalidation of other types of disbursements.

### 4. The Marine Corps' Online Prevalidation System (OPV)

#### *a. Background*

DFAS-KC, in conjunction with HQMC, set the requirement that all requests for payment processed through DFAS-KC be subject to prevalidation. All other military services and service components under the control of DoD, have maintained the $5 million threshold. The Marine Corps OPV system was to be the prototype system for all of DFAS and DoD.

On May 30, 1995, the Director of DFAS-KC announced in a memorandum that it would implement the On-Line Prevalidation System (OPV) on July 1, 1995. According to the memorandum, "Implementation of the OPV is, effectively, the first step toward eradicating unmatched disbursements and negative unliquidated obligations." [Ref. 17]

> DFAS is ready to implement an automated process for validation of obligation amounts prior to payment of invoices. Initially this process will support only payments processed by our vendor pay activities, e.g., contracts, purchase orders, delivery orders, etc. We are not yet implementing this process for travel or personnel payments. [Ref. 18]

"Due to incompatibility of various paying and accounting systems used, the Joint Application Development Workshop for the Elimination of UMD was developed and the On-Line Prevalidation of Payments to Liquidated Obligations (OPV) system was created." [Ref. 4] The DoD has various paying and accounting systems that were developed and are used by different services and service components to meet their specific needs. However, not all of the systems are compatible nor are they accessible to everyone. The On-line Prevalidation of Payment to Unliquidated Obligations System standardized the payment practices within DoD. The primary function of the OPV is to provide a standardized means of monitoring and ensuring that a disbursement is matched to a particular obligation before a payment is made, thus eliminating the formation of new Unmatched Disbursements.

### *b. The OPV System*

The OPV is a stand-alone module owned by DFAS-KC which allows the paying and accountable activities to prevalidate a demand for payment from internal and external official accounting systems before a disbursement is made. Information and data from the various paying and accounting systems is transmitted to the OPV system after each batch processing cycle, "Daily Cycle," via Electronic Commerce (EC) and Electronic Data Interchange (EDI) environments. [Ref. 4]

The local Central Design and Programming Activity/Regional Automated Service Center (CDPA/RASC) maintains the OPV system security. A user ID profile is created for each User. This ID profile determines the applications a User can select from

the Marine Corps Data Network (MCDN) Application Menu, the libraries authorized for the User, and which security sensitive programs the User may access within each library.

### *c. The OPV Process*

The DFAS, with the assistance of the fund holders, has the principal responsibility for initiating and conducting reviews of unmatched disbursements. The Comptroller's office acts as a liaison between the Fund Administrators and DFAS and coordinates with the appropriate Fund Administrator as required to correct the documents appearing on the Rejected Payment Authorization Request Report.

The DFAS-KC prevalidates disbursements using an interface between MOCAS and the Headquarters Accounting System (HAS). When the paying activity receives an invoice for payment, it enters the standard document number (SDN) or contract number and dollar value of the requested payment into the prevalidation system. The obligation data resident in the prevalidation system is from SABRS, the Headquarters Accounting System (HAS), and local Allotment Accounting System (AAS). For each authorization request, MOCAS electronically sends a "record 7" transaction to the HAS. A "record 7" transaction is a transaction sent by the disbursing activity to the accounting system. It provides the accounting station with the payment request amount, document number, contract number, and appropriation data. In some cases, the information has to be manually compared to the accounting data and unliquidated obligation balance in the accounting system. The validation process determines, before disbursement, whether each line of accounting data to be changed (summarized in the Accounting Classification

Reference Number, ACRN) represents a valid obligation in the accounting system. The process also determines whether the unliquidated obligation balance is equal to or greater than the proposed disbursement. The verification of the unliquidated obligation balance must also consider other proposed disbursements that have been previously validated but not yet recorded as disbursed.

If sufficient funds have been obligated and are still available, then a "record 8" transaction is sent from the accounting system to MOCAS clearing the approval for disbursement. A "record 9" transaction is electronically transmitted to each associated accounting system, giving the authority to release the reserved funds and providing the expenditure data needed to record the payment.

If sufficient funds have not been obligated, a message stating such will be provided to the paying activity. This message will also be routed to the accounting activity. Upon review of the rejected validation requests, the accounting activity has the ability to automatically forward the item to the appropriate fund administrator for corrective action via the Rejected Payment Authorization Request Report. The fund administrator would then input an increase to an existing obligation or establish a previously overlooked obligation. Once the record (obligation) is corrected in the accounting system, the system automatically recycles the record through the prevalidation system. When an approved "record 8" transaction is received for each "record 7" transaction associated with the invoice, the invoice is scheduled for payment.

Failed prevalidation transactions will cause the record to be put in suspense and a demand for payment will be rejected, if the information in the official

accounting system does not match the information on the demand for payment. All failed transactions will appear and remain on the "Suspended Payment Authorization Request Maintenance" option until the record is corrected. A report of all passed, failed, and corrected transactions is generated with the running of each "Daily cycle" (generally run, every two days), or the reports may be extracted as requested within the OPV system.

If an error appears in the document number or any part of the accounting data, the command is responsible for notifying the disbursing office of the error so the correction can be made in SABRS. If the document number is invalid, the command notifies the disbursing office immediately to expedite a further problem investigation. Establishment of sufficient obligations in SABRS before invoices are presented to DFAS for payment is of the utmost importance. Minimally, failure to do so leads to delays in payment until sufficient obligations are established; and, under the terms of the Prompt Payment Act, 1982, (PPA), such delays result in interest penalties.

# III. DATA ANALYSIS

## A. INTRODUCTION

Chapter III addresses specific reasons why disbursements initially fail the prevalidation process. This chapter follows the payment history of 145 consecutive documents, totaling $530,158.98, that were cycled onto the Rejected Payment Authorization Request Report. This is approximately the number of failures reported to MARFORLANT over a 2-month period. It equates to approximately 16 percent of the yearly failures for MARFORLANT.

This thesis primarily deals with the number of transactions rather than the dollar amount of each document that failed to process through the prevalidation system. Appendix A summarizes the data sample of the 145 prevalidation failure documents, and is organized by reason for its appearance on the Rejected Payment Authorization Request Report. A document number, date of failure, dollar amount, and condition of failure were assigned to each failed transaction. The sample data are sorted and grouped by a failure condition, which is identified in reason codes one through seven.

Appendix A provides additional information regarding the length of time that the 145 documents in the data sample remained on the Rejected Payment Authorization Request Report. This applies to reason code 8 in Appendix A. This information will be further explained in Chapter IV; however, it is not pertinent to Chapter III.

Prevalidation is currently monitored at the Force Comptroller level, MARFORLANT and MARFORPAC. "The major subordinate commands (MSC), II

MEF, 2nd SRIG, 2nd FSSG, 2nd Division, 2nd MAW, the MEUs and all Atlantic bases and stations, have access to prevalidation; however, they do not work it properly if not reminded." [Ref. 19] Therefore, MARFORLANT provides the support and authority needed to aid and motivate the MSC's and Fund Administrators to work the Rejected Payment Authorization Report regularly.

## B. SAMPLE DATA

The history of each standard document number was researched and the reasons for each document number appearing on the Rejected Payment Authorization Request Report were tabulated and reported in the following paragraphs. After researching each document number for the cause of its appearance on the "rejected" report, corrective action was taken to rectify the document as necessary.

Table 3.1, Tabulated Sample Data Results, organizes each document in the sample data by the cause of its appearance on the Rejected Payment Authorization Request Report. The reason code, on the left side of the chart, corresponds to the numbered subsection that pertains to the specific cause of payment rejection. Reason code 8 in Appendix A has not been included in Table 3.1 because it does not pertain to the causes of prevalidation failure. Rather, reason code 8 provides information concerning the length of time a document remains on the Rejection Payment Authorization request report. This topic will be further discussed in Chapter IV.

| Reason Code | Reason | Number of Document #'s | Dollar Value |
|---|---|---|---|
| 1 | No Obligation Present | 84 | $ 182,689.58 |
| 2 | Incorrect Document Number | 32 | $ 183,205.11 |
| 3 | Resident on the M&S Error File | 11 | $ 18,602.13 |
| 4 | Record Inactive | 1 | $ 138.80 |
| 5 | Insufficient Funds Obligated | 9 | $ 92,390.37 |
| 6 | ACRN Problem | 3 | $ 252.18 |
| 7 | Request System Override. | 5 | $ 52,880.81 |

Table 3.1 Tabulated Sample Data Results

### 1. No Obligation Present

The most frequent reason why invoices initially fail the prevalidation process is because an obligation was not entered into SABRS by the comptroller's office. Of the total documents evaluated, 84 initially did not pass through the OPV System for lack of an existing obligation. This represents 57.9 percent of all the analyzed documents. Numerous reasons can be given to explain why the obligation was never entered into SABRS; however, most reasons are related to carelessness and lack of process oversight.

After a command supply unit places an order, the comptroller's office is expected to obligate enough funds to cover the cost of the ordered items. The benefits of this procedure are two-fold: (1) it obligates the funds so that they cannot be used for other purchases; (2) it verifies the available balance of the unit, thus ensuring that sufficient funds exist within the system to pay for the purchase. Unfortunately, sometimes there is a lack of communication between the supply unit ordering the goods or services and the comptroller's office, or at the lower level, the fiscal clerk.

IMPAC cards are the military's version of the credit card. They are used to purchase off-the-shelf supplies without the paperwork required for normal contracts. The comptroller's office holds the IMPAC cards when not in use and records all obligations upon receiving receipts from purchases made with them. In some cases, comptrollers are not creating the obligation in SABRS upon receiving receipts from purchases made with the IMPAC card. The prevalidation failures due to IMPAC cards should be reduced soon. "DFAS and the operating units have been working on a program to automate the obligation in SABRS via an interface using a Purchasing and Contracting based program." [Ref. 19]

### 2. Incorrect Standard Document Number

All transactions processed in SABRS require the use of a standard document number, which is a 14-digit or 15-digit number that uniquely identifies the financial document. Once assigned, the standard document number becomes the reference number in SABRS. In order to access or update the record in SABRS, the exact standard document number must be used. When a transaction is received which does not properly match an existing obligation in the accounting records, the accounting office will make a cursory review of the rejected transaction from system generated transactions reject or error listings. Simple errors can usually be immediately corrected and the transaction successfully reentered. An example of a simple error is a misalignment of data elements within the document number or an apparent erroneous input of a data element within the document number, such as an error in the date.

Of the documents analyzed, 32 documents, totaling $183,205.11, did not pass through the prevalidation system due to errors in the standard document number. That equates to 22.1 percent of all sample data document failures. These errors can appear in any part of the standard document number and can occur at any stage in the procurement process. The comptroller creates a standard document number and enters the data into SABRS. When entering the obligation into the accounting system or entering a document number into the OPV, keying errors can be made. The purchasing and contracting office, which is responsible for ordering the items requested, may inadvertently misread the document number created by the comptroller, thus creating a new document number on the contract. The document number resident on the contract will ultimately appear on the invoice. Common mistakes include transposing the alphanumeric characters and incorrect Julian dates and fiscal years within the standard document number. October 1st is the beginning of a new fiscal year. As a result, comptrollers who reserve and obligate documents in SABRS during the first weeks of the new fiscal year have a tendency to enter the previous fiscal year, accidentally.

Unfortunately, not all mistakes in standard document numbers are as easily identifiable as the above-described mistakes. Many times errors in document numbers are multiple or too difficult to identify. For this reason, it is possible that the percentages stated in the previous subsection, "No Obligation Present," could be lower. A failure to post an obligation or an erroneous data entry may result in disbursements that cannot be matched to existing obligations. To facilitate liquidation under some accounting systems, the AAA/OPLOC might establish another obligation by utilizing a default job order

number to balance the disbursement made. The original obligation remains outstanding indefinitely because matching expenditures will never occur. This has the effect of double charging the obligations in an account for a single purchase.

### 3. Resident on the M&S Error File

Contracting support on Marine Corps installations is provided through Marine Corps Regional Contracting Offices. "Regional Contracting Offices (RCO) under the supervision of appointed Contracting Officers procure goods and services that are not otherwise available through DoD or General Service Administration (GSA) supply channels." [Ref. 20] A DD Form 1149, Requisition and Invoice/Shipping Document, is submitted by the Fund Holder along with a general description of the goods or services requested, accounting classification data, and a dollar threshold of funds available to support the requirement to the RCO for contracting action. The Fund Administrator's DD Form 1149 is the source document for the establishment of a reservation in SABRS, based upon an estimated cost requirement. Accounting classification data is transcribed from the DD Form 1149 to the contract, DD Form 1155. Once a contract is issued, a copy is forwarded to the fund administrator for input into SABRS as an obligation and to DFAS for the establishment of a vendor file.

"An alternate means of recording contract obligations in SABRS exists by way of an automated interface with the Marine Corps' Base Contracting Automated System (BCAS)." [Ref. 20] Currently, Marine Corps operational supply units make requisitions through the Automated Requisition System (ARS). Upon entering a request for supplies in ARS, the request awaits approval from the proper authority via electronic

signature/code. After receiving approval, the request is electronically sent to the purchase and contract office and a reservation is automatically established in SABRS. Requisition and accounting information is electronically transferred from ARS to BCAS to automate the process. "BCAS is used to automate certain contracting office functions, such as solicitation processing, contract awards processing, contract modifications, and administration." [Ref. 20] BCAS incorporates an accounting and finance interface, which can be used to post contract obligations in SABRS. This interface is dependent upon the fund administrator having previously established a reservation of the transaction in SABRS, which is also required when the DD Form 1149 is submitted to the contracting office. If the transaction is reserved in SABRS, Document Identifier Code (DIC) "XSR," BCAS will generate, automatically, DIC "XSC" when the contract is awarded; DIC "XSC" obligates the document.

Sometimes, the information in BCAS does not match a reservation in the accounting system. This is due primarily to "walk-throughs." Walk-throughs are manually processed requisition transactions, which are normally done when a high priority is placed on rapid purchase of an item. According to MARFORLANT's managerial accountant,

> The major causes of items not passing the prevalidation system are the result of manual transactions that were not processed through an interface, such as walk-throughs that did not go through ARS (Automated Requisitioning System). The obligation should still be processed with walk-throughs when the contract is awarded; however, if the reservation does not process the contract falls on the M&S error file. We have been stressing the importance of keeping the M&S error file cleaned between cycles. If this could be done, we would not have a problem with walk-throughs failing prevalidation. [Ref. 19]

Because of the missing "XRA" (reservation), the "XSC" (obligating transmission) that BCAS sends to SABRS does not match up with the appropriate reservation. As a result, the document is placed on the Material & Service Error File (M&S Error File) within the accounting system, where it will remain until the error can be identified and corrected.

Of the sample data analyzed, 11 documents, 7.6 percent of the total documents initially appeared on the Rejected Payment Authorization Report because they were cycled to the M&S Error File for the absence of a reservation. Meanwhile, the contractor/vendor had fulfilled its contract obligation and sent an invoice to DFAS-KC for payment. When the invoice was processed, the request for payment was denied because no valid obligation existed within the accounting system against which to charge the invoice. The denied document was cycled to the Rejected Payment Request Report. The document remained on the report until the field unit corrected the document on the M&S Error File.

#### 4. Record Inactive

Public vouchers are the authoritative document used by government agencies to justify payment for purchases of materials and services. Disbursement vouchers serve as the source documents for the liquidation of obligations. When a public voucher is correctly prepared, properly signed, and supported by all necessary substantiating documents, disbursing officers will make payments in one of the following categories: partial, complete, final, progress, or advance payments. The common forms of public vouchers used by the Marine Corps are the Voucher for Disbursement and/or Collection

(NAVCOMPT Form 2277) and DD Form 1155. Contracts and orders specify the activity to which the vendor is to submit bills and the activity that will make payment. The activity designated in the contract to make payment is responsible for preparing the public voucher.

When filling out DD Form 2277 for disbursement, the responsible activity must check the appropriate payment category box. In addition the DFAS disbursing office responsible for making payment on a public voucher must also enter the appropriate category of payment. When errors occur in either case, the result is an incorrect document history and the possible suspension of further payments from that document.

Of the 145 documents researched, only one document failed the prevalidation process because the document record had been deactivated. Despite the fact that less than one percent of the documents failed prevalidation due to suspension of the record, it is important to note that this occurs more often than is represented in the sample data, especially during the change of fiscal year.

When a new fiscal year begins, all O&M,MC funds in the prior year appropriation are cancelled. All utility and maintenance contracts must be renewed and renegotiated. In many cases, when the first payment on a contract is made, the disbursing office processes the public voucher, either by mistake or because of an error in the public voucher, as a final payment. In doing so, the record becomes "inactive" or suspended and closed in the document history file. As a result, the second billing will fail the prevalidation process because the record has closed, despite the fact that sufficient funds

are obligated to cover the cost of the second billing. Once the fiscal year is well underway, as was the case when the data were collected, this error is rarely made.

### 5. Insufficient Funds Obligated

Of the sample data analyzed, nine documents or 6.2 percent failed because of insufficient obligated funds. The initial amount reserved and obligated is usually determined from price listings and work estimates. Due to incorrect estimates, amendments to contracts, or utilization of old price listings, the actual price may not match the estimated price originally obligated. A price adjustment should be recorded in the local records to correct the original obligation. However, if price adjustments are not recorded, the local record balance may be over or understated as compared to the official AAA/OPLOC records. When invoices are received, the actual amount owed to the contractor may be more than what is obligated in the accounting system. If this happens, the request for payment is denied during the prevalidation process until the proper amount of funds identified on the invoice is obligated or the contractor corrects any errors identified in billing.

### 6. ACRN Problems

Payments made on administered contracts represent the most significant volume of transactions for the DFAS Columbus Center (DFAS-CO). A unique characteristic of payments on administered contracts is the use of a special data element, the accounting classification reference number (ACRN) for financial identification purposes. Only administered contracts are required to use ACRNs. Because these are the largest contracts with a correspondingly high volume of large payments, it is necessary that well-

defined procedures exist for the review, adjustment, and correction of these disbursement transactions.

Of the documents analyzed, three or 2.1 percent were the result of the assignment of an incorrect ACRN. It was stated earlier that errors in obligating multiple ACRN contracts represent a monetarily significant portion of the total volume of failed documents throughout DoD. This is an accurate claim when including all of the procurement contracts (PMC appropriation), worth billions of dollars, that are processed through DFAS- CO. However, the sample data analyzed in this thesis were collected from DFAS-KC and only included purchases made with the O&M,MC appropriation. Thus, the lower percentage of documents and total dollar amount may not present an accurate picture of the larger DoD ACRN problem.

When contracts are awarded for multiple items or services, different ACRNs are used to separate the services ordered under the standard document number. The ACRN is a two-character code such as AA or AB used to separate unrelated services identified within a single contract and document number. As an example, a contractor may provide fuel and maintenance under the same contract. However, because both services are completely separate and have separate funding ceilings, the funds allocated to each would be allocated under separate ACRNs.

Normally, if there is only one type of service identified on a contract, the default ACRN, AA, is used. The problem arises when multiple services are identified on a contract. "A contract with numerous ACRNs may involve extensive data entry, increasing the chance for errors and manual payment processing." [Ref. 21] If the

comptroller obligating the contract is not cognizant of the manner in which the contract is written, an obligation for the entire amount of a double or triple ACRN contract will be obligated to only the first ACRN, usually AA.

> Contracts providing for progress of cost payments often do not contain a clause or other guidance addressing how to distribute those costs when multiple funding lines are involved. Instead, the entitlement system must prorate those payments based on the unliquidated dollar value balance of all ACRNs cited on the contract. This has raised some problems in the prevalidation process. [Ref. 21]

These contracts must still be prevalidated, and the accounting side of the prevalidation process must accept the prorations. The prorations can be rejected if the unencumbered balance of an ACRN (unliquidated obligation less previously approved, unpaid, prevalidation payment requests) is insufficient.

### 7. System Override

There is a Certify Payment Previously Rejected (Override) option within the Maintenance of Suspended Payment Authorization Requests option. This option is used by the accounting activity to advise the paying activity to make a payment even though it has failed prevalidation. For example, a demand for payment failed prevalidation; however, the accounting activity corrected the transaction in the official accounting system. Because the OPV system does not interface with the official accounting system daily, and to avoid interest penalty payments, an authorized user can override the system to make a payment. This option may also be used when a demand for payment is an exception to the Grassley Amendment. For review, the Grassley Amendment states that each payment request (invoice) must match an existing obligation prior to the disbursement of funds. This requirement can be waived by the Secretary of Defense in

the following cases: a disbursement involving deployed forces, a disbursement for an operation in a war declared by Congress, or a disbursement under any other circumstances for which a waiver is necessary in the interest of national security.

After examination of the sample data, five documents, or 3.4 percent, were found that required system over-ride. All of these documents were late payments, accruing interest. The fund holding command assured the disbursing office that that obligation was made by sending a screen print of the appropriate document number's obligation screen in SABRS. Since, the OPBUD holders work under the limitation of a batch processing system in SABRS, the obligation entered is not processed in real-time. Rather, the batches are processed every two to three days. This is, of course, provided that nothing holds up batch processing during the Daily Cycle. Unfortunately, SABRS is not always the most reliable system for properly downloading and updating during the Daily Cycle batch process. It has a tendency to crash during the batch processing and then remain down until the problem can be fixed. This might take minutes or days. As a result, payments delayed because no obligation exists in SABRS are delayed even longer. Thus, operating units can request that a document with a pending obligation over-ride the prevalidation system so that payment is delayed no further.

# IV. PREVALIDATION RELATED ISSUES

## A. INTRODUCTION

Chapter III presented sample data for the reasons that document numbers fail to process through the OPV System. Chapter IV will discuss topics peripherially related to the introduction of the prevalidation system, such as penalty interest charges accrued on the sample data, current NULO/UMD levels for MARFORLANT, and Marine Corps prevalidation tolerance parameters. These topics will complete the broad spectrum from which prevalidation must be seen in order to fully appreciate the issues.

## B. INTEREST CHARGES

In accordance with the Treasury Department regulations, a payment period commences when an invoice is received or when the materials or services are accepted, whichever is later, and the payment period ends on the date cited on the U.S. Treasury check completing the payment. If payments are not made within the payment period prescribed in accordance with the Prompt Payment Act, interest will accrue on the payment owed. With the exception of perishable items, the usual length of the payment period is 30 days unless otherwise specified on the contract. Interest is computed from the day following the payment due date through the date of payment and is compounded each thirty calendar day period following the original due date, with accrual up to one year. The rate used to compute interest is provided semiannually by the Treasury Department to the Department of Defense.

In the first few months of the implementation of the OPV system, records were kept of how MARFORLANT commands were faring under the new system. However, once all of the Marine Corps Defense Accounting Offices (DAO) were consolidated at DFAS-KC and the DAO at Camp Lejeune closed, interest records stopped. Table 4.1, Monthly Prevalidation Penalty Interest Charges, shows a 5-month glimpse of the amount of interest MARFORLANT commands were charged by vendors because of late payments due to invoices failing to process through the OPV system in a timely manner. The third column includes all interest charged to MARFORLANT commands, including the interest penalties identified in the second column of Table 4.1.

| Date | Prevalidation Interest | Total Interest |
|---|---|---|
| October 1995 | $ 1,198.03 | $ 1,557.98 |
| November 1995 | $ 865.96 | $ 1,054.69 |
| December 1995 | $ 859.15 | $ 1,232.29 |
| January 1996 | $ 2, 424.84 | $ 3,191.11 |
| February 1996 | $ 845.95 | $ 1,453.53 |

Table 4.1 Monthly Prevalidation Penalty Interest Charges [Ref. 23]

Based on the data in Table 4.1, an average of 72.6 percent of the total monthly penalty interest charges were the result of invoices failing to process through the OPV system prior to the end of the payment period. The data included in Table 4.1 are from the initial Prevalidation implementation period. According to the MARFORLANT managerial accountant, the majority of the penalty interest charges are no longer the result of failure to process through the OPV system.

> Interest has increased during the past few years as a result of consolidation and new individuals handling the Marine Corps financial accounts. Very little interest is attributed to prevalidation of payments. Missing receiving reports is the major cause of interest payments. [Ref. 19]

Interest was calculated for all documents appearing under reason code 8 in Appendix A. Reason code 8 identifies all document numbers within the sample data that failed to be corrected after one appearance on the Rejected Payment Authorization Report. By this it is meant that the document number appeared on multiple Rejected Payment Authorization request reports. As a result, many of the document numbers listed in reason code 8 of Appendix A (in some cases multiple times) accrued penalty interest charges.

For the purposes of this thesis, the assumption was made that all document numbers that appeared on the Rejected Payment Authorization Request Report the first time were 20 days into the payment cycle. For those document numbers only appearing once on the report, it was assumed that payment was made within the prescribed payment period; thus no interest penalties were charged. However, document numbers appearing multiple times on the report were monitored. If the document number was not paid within the 30-day payment period, interest accrued on the late payment and was calculated according to the current published interest rate, which was 6.375 percent as of November 1, 1997. All of the document numbers identified with reason code 8 in Appendix A are listed in Appendix B accompanied by the pertinent interest penalty calculations. The total interest accrued on the sample was $69.20.

The amount of interest charges caused by documents failing to process through the prevalidation system has decreased significantly compared to the interest data collected during the early prevalidation implementation months illustrated in Table 4.1. Reasons for this phenomenon include an increase in training and an operational learning

curve of the OPV system and process. In addition, the interest penalties decreased with the implementation of the $500 minimum tolerance parameter set on March 1,1996.

## C. $500 TOLERANCE PARAMETER

After the OPV System's initial introduction to the accounting field, Marine Corps field commands made frequent complaints about the implementation of a zero tolerance parameter. With the zero tolerance parameter, all document numbers whose obligations were not equal to or greater than the payment amount requested would fail to process through the OPV System. Hundreds of documents were cycled to the Rejected Payment Authorization Request Report because of variances less than $5. The failure of documents for minimal amounts of money, in some cases cents, seemed a drain on the accounting resources of the Marine Corps. As an example, a request for payment in the amount of $5,000 dollars would be held up because only $4,995.00 was obligated. Realizing that the purpose of the OPV System is to ensure enough funds exist in the system before payment, common sense should prevail in making the decision to pay or not. By holding up the payment because of a $5.00 or even five cents difference in obligation to liquidation, interest accrues. In fact, in some cases the Marine Corps field units were charged more in late interest penalties than was needed in additional obligations to cover the invoice.

After analyzing comments from Marine Corps field commands, Headquarters Marine Corps in conjunction with DFAS-KC made the decision to establish a Prevalidation Adjustment Parameter Amount (PARM) of $500.00. The Online Prevalidation parameter only applies to payments against recorded obligations where the

only reason for its appearance on the Rejected Payment Authorization request report is insufficient funds. According to officials at Headquarters Marine Corps, this action was "expected to correct approximately 80 percent of the payments previously rejected for insufficient obligation by the prevalidation system." [Ref. 24] This parameter was implemented on March 1, 1996.

## D. THE UMD/NULO LEVELS

The Congress passed section 8137 of Public Law 103-335, to improve accountability over DoD disbursements. The law directed the Secretary of Defense to require that each disbursement in excess of $5 million be matched to a particular obligation before the disbursement is made. The requirement had to be implemented by July 1, 1995. The legislation further required that the Secretary of Defense lower the dollar threshold for matching disbursements and obligations to $1 million no later than October 1, 1995.

Subsequently, section 8102(d) of Public Law 104-61, the DoD Appropriation Act, 1996, superseded the earlier legislation and eliminated the requirement that the threshold be lowered to $1 million. However, section 8102(d), like section 8137(e) of the earlier legislation, provided that the Secretary of Defense could establish a threshold lower than the statutory threshold. In addition, the legislation directed the Secretary to ensure that a disbursement in excess of the threshold amount not be divided into multiple disbursements to avoid prevalidation requirements.

The purpose of instituting the OPV System was to ensure that payments were matched with obligations. Ultimately, the implementation of the DoD prevalidation

system will cause a decrease in NULO and UMD levels. When obligations and liquidations are properly matched and enough funds are obligated to cover an invoice payment, no new NULOs and UMDs will be created.

DFAS-KC made the decision to prevalidate all of the invoices received to ensure that NULO and UMD levels would not increase as a result of improper obligations failing to match disbursements. However, all other DFAS centers currently implement the prevalidation process according to the law, meaning that only document numbers with obligated funds greater that $5 million dollars are cycled through the prevalidation system.

"The Marine Corps UMD/NULO levels have been drastically reduced during the past few years. This can be attributed to a higher emphasis being placed by CMC and DFAS." [Ref 19] In addition there is evidence to support the statement that the Marine Corps prevalidation process is aiding in the effort to lower UMD and NULO levels. While the OPV System cannot correct previously existing NULOs and UMDs, it is an integral tool in preventing new problem disbursements. In March 1995, MARFORLANT had a reported $9.1 million in outstanding UMDs [Ref. 11]. In July 1996, one year after the introduction of the OPV system, MARFORLANT reported that UMD levels had decreased to $4 million. As of September 1997, MARFORLANT UMD levels were reported under $2 million. In addition, there were no *critical* (over 180 days old) UMDs or NULOs on the financial reports at the close of Fiscal Year 1997 [Ref. 25].

# V. RECOMMENDATIONS AND CONCLUSION

## A. RECOMMENDATIONS

The purpose of this chapter is to make recommendations to improve the prevalidation process and hopefully alleviate some of the contributing factors that plague the payment process.

### 1. Eliminate Threshold Levels

The prevalidation process is intended to eliminate future problem disbursements within DoD and bring disbursing and accounting systems into agreement. While the disbursements that are prevalidated generally do not result in problem disbursements, only a small portion of all disbursements is prevalidated. Lowering thresholds at which disbursements must be prevalidated and expanding the types of payments that are subject to prevalidation will improve the credibility of DoD financial management and further decrease the UMD and NULO levels significantly.

> The DFAS Columbus Center processed 521,262 disbursements totaling over $37.1 billion during the period July 1, 1995 through January 31, 1996. Only 1,157 of those disbursements, totaling $12.4 billion, met the $5 million threshold and were thus prevalidated. [Ref. 15]

The combined efforts of the Marine Corps and DFAS-KC demonstrate that it is possible to prevalidate all invoices prior to payment without dramatically increasing the overall workload of the comptroller office. For this reason, the $5 million threshold is too high to ensure that most disbursements will be prevalidated.

### 2. Early SDN Entry

Currently, DFAS-KC has a semi-automated prevalidation system where the SDNs are manually input into the OPV once all of the documentation is received. The necessary documentation includes the invoice, receiving report, and the contract or purchase agreement. In most instances, all of the documentation is not received at once, and only after all documentation is received does the SDN get entered into the OPV System. This leads to futher delays in payment when the SDN fails to process through the OPV system.

If, upon receiving any one piece of documentation (i.e. invoice, receiving report, or purchase document), the obligation query was made (i.e. the SDN was processed through the OPV), payment could be made early and possibly earn the early payment discount built into most contracts.

This change in standard operating procedures would also transfer the responsibility of determining validity of payment to the fund administrator. In most cases, researching document numbers on the Rejected Payment Authorization Request Report is considered an exercise in obligation because DFAS-KC has all of the appropriate documentation prior to a document number's entry into the system. As a result, the question of whether the payment request is valid is rarely asked. Changing the process would provide an incentive for the fund administrator to research each document number cycled to the Rejected Payment Authorization Request Report prior to obligating the document.

### 3. M&S Error File

Currently, Marine Corps operational supply units make requisitions through the Automated Requisition System. This system electronically obligates purchases upon the approval of a contract or purchase agreement. This system is dependent upon the fund administrator having previously established a reservation of the transaction in SABRS. Unfortunately, sometimes the information transferred to BCAS does not match a reservation in SABRS. This is due primarily to "walk-throughs." Walk-throughs are manually processed requisition transactions, which are normally done when a high priority is placed on the rapid purchase of an item. Because of the missing "XRA" (reservation), the "XSC" (obligating transmission) that BCAS sends to SABRS does not match the appropriate reservation. As a result, the document is placed on the Material & Service (M&S) Error File within the accounting system, where it will remain until the error can be identified and corrected.

The M&S error file must be worked each cycle to ensure all obligations are processed on time. If documents are not cleared off the M&S error file, they will result in rejected payments on the prevalidation reports. There is the potential for a 1517 violation if obligations are not posted on time and correctly. In addition, further education is necessary to familiarize operational units with the procedures required of walkthroughs so that documents do not fall on the rejected report.

### 4. Education

SABRS is the core system of Marine Corps accounting management. It is a sophisicated accounting system with over 18 subsystems, including prevalidation. All personnel within the financial management field must be well versed in its use in order to achieve the expected error-free financial status.

In order to achieve this status, education should be provided to all upon the assignment of fund administrator duties. Newly assigned fund administrators should be required to attend a mini-course on the SABRS subsystems, including the OPV System. This will provide the fund administrators with the basic knowledge of the functions and purposes of each subsystem, and it will further enhance the awareness and importance of fiscal responsibility and competency.

## B. BENEFITS OF RESEARCH

This thesis provides information to field activities, as well as the Marine Corps, regarding the purpose of the prevalidation system, and the causes of rejected payment requests. Identification of specific system failures within the accounting system will foster development of recommended actions to eliminate system inadequacies. No meaningful corrective actions of the inadequacies inherent in the prevalidation system can be implemented without knowing where, how, and why, request for payment failures occur.

In addition, this thesis determines the effectiveness of the prevalidation system in eliminating NULO and UMD accounting problems, which have become an important military accounting issue in recent years.

## C. CONCLUSION

The prevalidation process has demonstrated that it is a useful tool to help identify and prevent errors from being recorded in the official accounting records. However, to prevent errors from occurring in the first place, DoD must address short-term and long-term efforts targeted at improving the quality of information in its systems, as well as the educational requirements necessary to work with the improved and ever changing information systems.

"Improving DoD's payment system will not be an easy, quick, or cheap undertaking. It will require continued top management attention and support for many years to come." [Ref. 15]

# APPENDIX A: SAMPLE DATA

| Reason Code | Date of Prevalidation Report | Maj Activity | ACRN | Document Number | Amount |
|---|---|---|---|---|---|
| 1 | June 4, 1997 | M00146 | AA | M00146527405CH | $750.00 |
| 1 | June 4, 1997 | M00146 | AA | M00146635100MF | $395.00 |
| 1 | June 4, 1997 | M00146 | AA | M00146635431GC | $720.00 |
| 1 | June 4, 1997 | M00146 | AA | M00146703411BE | $650.00 |
| 1 | June 4, 1997 | M00146 | AA | M00146704100GV | $53.00 |
| 1 | June 4, 1997 | M00146 | AA | M00146709200GG | $348.00 |
| 1 | June 4, 1997 | M00146 | AA | M00146709202GG | $675.00 |
| 1 | June 4, 1997 | M00146 | AA | M00146709204GG | $168.00 |
| 1 | June 4, 1997 | M00146 | AA | M00146710033MH | $560.00 |
| 1 | June 4, 1997 | M00146 | AA | M00146710701NC | $995.00 |
| 1 | June 12, 1997 | M00146 | AA | M00146710702NG | $1,695.00 |
| 1 | June 4, 1997 | M00146 | AA | M00146711836MH | $50.31. |
| 1 | June 12, 1997 | M00146 | AA | M00146714200NE | $23.36 |
| 1 | June 4, 1997 | M00146 | AA | M00146714756GG | $250.00 |
| 1 | June 10, 1997 | M12000 | AA | M120017052I096 | $580.00 |
| 1 | June 10, 1997 | M12000 | AA | M121207041N001 | $239.30 |
| 1 | July 7, 1997 | M12000 | AA | M1223097MDA0001 | $102.55 |
| 1 | June 26, 1997 | M20001 | AA | M2001071330198 | $8,728.11 |
| 1 | May 13, 1997 | M20179 | AA | M201796362M164 | $1,116.40 |
| 1 | May 13, 1997 | M20179 | AA | M201797057M369 | $50.00 |
| 1 | May 13, 1997 | M20179 | AA | M201797086M469 | $500.00 |
| 1 | June 10, 1997 | M20179 | AA | M2017970920738 | $22,500.00 |
| 1 | June 10, 1997 | M20179 | AA | M2017970920739 | $22,500.00 |
| 1 | May 13, 1997 | M20180 | AA | M201807049C043 | $798.00 |
| 1 | June 26, 1997 | M20360 | AA | M203647148P036 | $240.00 |
| 1 | July 7, 1997 | M27100 | AA | M216257169P001 | $225.00 |
| 1 | June 10, 1997 | M27100 | AA | M271017108401F | $49.40 |
| 1 | June 26, 1997 | M27100 | AA | M271397092A157 | $199.15 |
| 1 | June 26, 1997 | M27100 | AA | M2715071390006 | $60.00 |
| 1 | June 10, 1997 | M27100 | AA | MML20570797800 | $150.00 |
| 1 | June 10, 1997 | M27100 | AA | MML20570797801 | $135.00 |
| 1 | June 10, 1997 | M27100 | AA | MML20570917806 | $1,250.00 |

Prevalidation Data Summary

| | | | | | |
|---|---|---|---|---|---|
| 1 | June 26, 1997 | M53530 | AA | M5007571030064 | $337.50 |
| 1 | June 26, 1997 | M53530 | AA | M5007770350001 | $1,168.70 |
| 1 | July 7, 1997 | M53530 | AA | M5353071600527 | $16.11 |
| 1 | June 30, 1997 | M53530 | AA | M5353071600528 | $157.86 |
| 1 | June 26, 1997 | M57080 | AA | M0002962750001 | $360.67 |
| 1 | May 13, 1997 | M57080 | AA | M000317108N340 | $144.00 |
| 1 | June 26, 1997 | M57080 | AA | M0020770990076 | $38.15 |
| 1 | June 10, 1997 | M57080 | AA | M0027270224A38 | $3,780.00 |
| 1 | June 10, 1997 | M57080 | AA | M0027270224A39 | $550.00 |
| 1 | June 10, 1997 | M57080 | AA | M002737136E213 | $6.44 |
| 1 | June 10, 1997 | M57080 | AA | M002737136E214 | $27.56 |
| 1 | June 10, 1997 | M57080 | AA | M002737148E218 | $27.68 |
| 1 | June 26, 1997 | M57080 | AA | M008707028N114 | $18.94 |
| 1 | June 10, 1997 | M57080 | AA | M008707133N177 | $124.78 |
| 1 | June 26, 1997 | M57080 | AA | M570806303N007 | $16.33 |
| 1 | June 4, 1997 | M60169 | AA | M601697084D100 | $23.64 |
| 1 | June 4, 1997 | M60169 | AA | M601697134AB26 | $1,089.02 |
| 1 | June 4, 1997 | M60169 | AA | M601697143D101 | $15.15 |
| 1 | June 10, 1997 | M60169 | AA | M601697154CK01 | $1,061.00 |
| 1 | June 4, 1997 | M60169 | AA | M6016997TG17078 | $126.00 |
| 1 | June 4, 1997 | M60169 | AA | M6016997TG17091 | $136.00 |
| 1 | June 4, 1997 | M60169 | AA | M6016997TG17166 | $1,580.00 |
| 1 | June 4, 1997 | M60169 | AA | M6016997TG17224 | $136.00 |
| 1 | June 4, 1997 | M67001 | AA | M0506470300057 | $23.53 |
| 1 | June 4, 1997 | M67001 | AA | M0506470300057 | $25.45 |
| 1 | June 4, 1997 | M67001 | AA | M6700197MD13663 | $21,814.37 |
| 1 | June 4, 1997 | M67001 | AA | M6700197MD13664 | $14,293.41 |
| 1 | June 4, 1997 | M67001 | AA | M930586311W001 | $7,215.00 |
| 1 | June 4, 1997 | M67001 | AA | M930587022W001 | $2,347.00 |
| 1 | June 4, 1997 | M67001 | AA | M9317170300005 | $612.50 |
| 1 | June 4, 1997 | M67001 | AA | MG500697TG32010 | $35.00 |
| 1 | June 4, 1997 | M67001 | AA | MG500697TG32011 | $35.00 |
| 1 | June 4, 1997 | M67001 | AA | MG500697TG32012 | $35.00 |
| 1 | June 4, 1997 | M67001 | AA | MG500697TG32013 | $35.00 |
| 1 | June 4, 1997 | M67001 | AA | MG500697TG32014 | $35.00 |
| 1 | June 26, 1997 | M67026 | AA | M42CX67114R075 | $154.50 |

Prevalidation Data Summary

| | | | | | |
|---|---|---|---|---|---|
| 1 | June 26, 1997 | M67026 | AA | M670267063P009 | $189.00 |
| 1 | June 26, 1997 | M67026 | AA | M670267099FUD1 | $4,582.30 |
| 1 | July 7, 1997 | M67026 | AA | M670267138FW02 | $445.00 |
| 1 | July 7, 1997 | M67026 | AA | M670267138FW03 | $1,545.00 |
| 1 | June 26, 1997 | M67026 | AA | M670267139FU23 | $1,508.20 |
| 1 | June 30, 1997 | M67026 | AA | M670267141FU22 | $1,717.04 |
| 1 | July 10, 1997 | M67026 | AA | M203647148P036 | $240.00 |
| 1 | June 10, 1997 | M67391 | AA | M2001071330198 | $8,728.11 |
| 1 | June 26, 1997 | ? | AA | M009207140A023 | $94.00 |
| 1 | June 26, 1997 | M12000 | AA | M120017100HR01 | $35,342.00 |
| 1 | July 7, 1997 | M00146 | AA | M00146631801ND | $55.00 |
| 1 | July 7, 1997 | M57080 | AA | M0087063400255 | $2,785.30 |
| 1 | June 10, 1997 | | AA | M271396305A034 | $97.50 |
| 1 | June 10, 1997 | M12000 | AA | M120016283A022 | $51.50 |
| 1 | June 10, 1997 | M12000 | AA | M120016302A001 | $501.76 |
| 1 | June 26, 1997 | M12000 | AA | M120017160A413 | $450.00 |
| | | | | | |
| | | | | Total= | $182,689.58 |
| | | | | | |
| 2 | May 13, 1997 | DIVISION | AA | M120007293C026 | $144.30 |
| 2 | May 13, 1997 | DIVISION | AA | M1200097MD0C026 | $156.34 |
| 2 | May 13, 1997 | DIVISION | AA | M120016355I050 | $7,720.00 |
| 2 | June 4, 1997 | M00146 | AA | M00146635101MF | $395.00 |
| 2 | June 4, 1997 | M00146 | AA | M00146710780GG | $32.30 |
| 2 | June 4, 1997 | M00146 | AA | M00146714780GG | $32.28 |
| 2 | June 4, 1997 | M00146 | AA | M00146719180GG | $35.25 |
| 2 | June 4, 1997 | M00146 | AA | M00146719183GG | $173.32 |
| 2 | June 4, 1997 | M00146 | AA | M00146719183GG | $36.63 |
| 2 | June 4, 1997 | M00146 | AA | M00146719183GG | $27.72 |
| 2 | June 4, 1997 | M00263 | AA | M0026397TOC0361 | $695.00 |
| 2 | June 4, 1997 | M00263 | AA | M0026397TOC0362 | $695.00 |
| 2 | June 4, 1997 | M00263 | AA | M0026397TOC0417 | $995.00 |
| 2 | June 4, 1997 | M00263 | AA | M0026397TOC0515 | $950.00 |
| 2 | June 4, 1997 | M00263 | AA | M0026397TOC0516 | $950.00 |
| 2 | May 13, 1997 | M2360 | AA | M2036497MD00078 | $3.73 |
| 2 | June 26, 1997 | M57080 | AA | M008207008OP02 | $2,377.27 |

Prevalidation Data Summary

| | | | | | |
|---|---|---|---|---|---|
| 2 | June 4, 1997 | M60169 | AA | M6016996RCP7225 | $7,905.00 |
| 2 | June 4, 1997 | M67001 | AA | M0203362750103 | $23.53 |
| 2 | June 4, 1997 | M67001 | AA | M6700194RC23186 | $66.00 |
| 2 | June 4, 1997 | M67001 | AA | M9305653530064 | $1,785.33 |
| 2 | June 10, 1997 | M67026 | AA | M42CX67114R075 | $2,554.50 |
| 2 | June 30, 1997 | M67026 | AA | M42CX67114R075 | $154.50 |
| 2 | May 13, 1997 | DIVISION | AA | M2016170510156 | $153.60 |
| 2 | June 4, 1997 | M00146 | AA | M00146635431GC | $3,030.00 |
| 2 | June 4, 1997 | M00146 | AA | M00146704411UD | $6,258.65 |
| 2 | June 4, 1997 | M00146 | AA | M0014697RC00277 | $9,216.00 |
| 2 | June 26, 1997 | M53530 | AA | M5353070900391 | $15,643.00 |
| 2 | June 4, 1997 | M67001 | AA | M9305262750007 | $113,444.13 |
| 2 | June 4, 1997 | M67001 | AA | M9305771070362 | $5,513.65 |
| 2 | June 10, 1997 | M12000 | AA | M120016257AA59 | $1,806.00 |
| 2 | June 10, 1997 | M67026 | AA | M670266275PH06 | $232.08 |
| | | | | | |
| | | | | Total= | $183,205.11 |
| | | | | | |
| 3 | June 26, 1997 | M20179 | AA | M201797104M493 | $165.00 |
| 3 | June 26, 1997 | M20179 | AA | M201797104M494 | $55.00 |
| 3 | June 10, 1997 | M20179 | AA | M2017977098M485 | $50.00 |
| 3 | June 26, 1997 | M20360 | AA | M203647142P838 | $105.76 |
| 3 | June 30, 1997 | M20360 | AA | M216257118P003 | $75.00 |
| 3 | June 10, 1997 | M27100 | AA | MML2047108A011 | $17,491.70 |
| 3 | June 30, 1997 | M57080 | AA | M009207120A020 | $221.79 |
| 3 | July 7, 1997 | M57080 | AA | M009207140A023 | $94.00 |
| 3 | July 7, 1997 | M57080 | AA | M570806303N007 | $16.33 |
| 3 | June 30, 1997 | M67026 | AA | M203647142P838 | $105.76 |
| 3 | June 26, 1997 | ? | AA | M009207120A020 | $221.79 |
| | | | | | |
| | | | | Total= | $18,602.13 |
| | | | | | |
| 4 | June 4, 1997 | M00146 | AA | M00146629701NE | $138.80 |
| | | | | | |
| | | | | Total= | $138.80 |
| | | | | | |

Prevalidation Data Summary

| | | | | | |
|---|---|---|---|---|---|
| 5 | June 4, 1997 | M00146 | AA | M00146627501CH | $1,300.00 |
| 5 | June 12, 1997 | M00146 | AA | M00146712200NE | $47,975.30 |
| 5 | June 4, 1997 | M00263 | AA | M0026397SSX5014 | $1,120.00 |
| 5 | June 26, 1997 | M27100 | AA | M213106296F050 | $920.00 |
| 5 | June 10, 1997 | M53530 | AA | M5353097MP00468 | $495.00 |
| 5 | June 4, 1997 | M67001 | AA | M9305262750007 | $12,905.36 |
| 5 | June 4, 1997 | M67001 | AA | M930586351W002 | $11,904.71 |
| 5 | June 4, 1997 | M67001 | AA | M9911661300976 | $1,660.00 |
| 5 | June 10, 1997 | M67026 | AA | M670266275M002 | $14,110.00 |
| | | | | | |
| | | | | Total= | $92,390.37 |
| | | | | | |
| 6 | July 7, 1997 | M57080 | AB | M002077099C074 | $30.36 |
| 6 | June 10, 1997 | M57080 | AI | M002735276P012 | $10.00 |
| 6 | June 10, 1997 | M57080 | AA | M002757022P010 | $211.82 |
| | | | | | |
| | | | | Total= | $252.18 |
| | | | | | |
| 7 | June 12, 1997 | M67001 | AA | M6700197TGBM006 | $3,900.00 |
| 7 | June 12, 1997 | M67001 | AA | M9304562750027 | $33,000.00 |
| 7 | June 4, 1997 | M67001 | AA | M9317163310001 | $1,836.00 |
| 7 | June 4, 1997 | M67001 | AA | M9911662750020 | $1,033.95 |
| 7 | June 4, 1997 | M67001 | AA | MM034970910019 | $13,110.86 |
| | | | | | |
| | | | | Total= | $52,880.81 |
| | | | | | |
| 8 | July 10, 1997 | M20360 | AA | M216257169P001 | $225.00 |
| 8 | June 30, 1997 | M27100 | AA | M213106296F050 | $920.00 |
| 8 | July 1, 1997 | M27100 | AA | M213106296F050 | $920.00 |
| 8 | July 1, 1997 | M27100 | AA | M271397092A157 | $199.15 |
| 8 | July 7, 1997 | M27100 | AA | M271397092A157 | $199.15 |
| 8 | June 30, 1997 | M27100 | AA | M271397092A157 | $199.15 |
| 8 | July 1, 1997 | M27100 | AA | M2715071390006 | $60.00 |
| 8 | June 30, 1997 | M27100 | AA | M2715071390006 | $60.00 |
| 8 | July 1, 1997 | M53530 | AA | M5007571030064 | $337.50 |
| 8 | July 7, 1997 | M53530 | AA | M5007571030064 | $337.50 |

Prevalidation Data Summary

| | | | | | |
|---|---|---|---|---|---|
| 8 | June 30, 1997 | M53530 | AA | M5007571030064 | $337.50 |
| 8 | July 1, 1997 | M53530 | AA | M5007770350001 | $1,168.70 |
| 8 | July 7, 1997 | M53530 | AA | M5007770350001 | $1,168.70 |
| 8 | June 30, 1997 | M53530 | AA | M5007770350001 | $1,168.70 |
| 8 | July 1, 1997 | M53530 | AA | M5353071600528 | $157.86 |
| 8 | June 30, 1997 | M57080 | AA | M0002962750001 | $360.67 |
| 8 | July 1, 1997 | M57080 | AA | M0020770990076 | $38.15 |
| 8 | July 7, 1997 | M57080 | AA | M0020770990076 | $38.15 |
| 8 | June 30, 1997 | M57080 | AA | M0020770990076 | $38.15 |
| 8 | July 1, 1997 | M57080 | AA | M0027270224A38 | $3,780.00 |
| 8 | July 7, 1997 | M57080 | AA | M0027270224A38 | $3,780.00 |
| 8 | June 30, 1997 | M57080 | AA | M0027270224A38 | $3,780.00 |
| 8 | July 1, 1997 | M57080 | AA | M0027270224A39 | $550.00 |
| 8 | July 7, 1997 | M57080 | AA | M0027270224A39 | $550.00 |
| 8 | June 30, 1997 | M57080 | AA | M0027270224A39 | $550.00 |
| 8 | July 1, 1997 | M57080 | AA | M008707028N114 | $18.94 |
| 8 | June 30, 1997 | M57080 | AA | M008707028N114 | $18.94 |
| 8 | July 1, 1997 | M57080 | AA | M008707133N177 | $124.78 |
| 8 | July 7, 1997 | M57080 | AA | M008707133N177 | $124.78 |
| 8 | June 30, 1997 | M57080 | AA | M008707133N177 | $124.78 |
| 8 | July 1, 1997 | M57080 | AA | M009207140A023 | $94.00 |
| 8 | June 30, 1997 | M57080 | AA | M009207140A023 | $94.00 |
| 8 | July 1, 1997 | M57080 | AA | M570806303N007 | $16.33 |
| 8 | June 30, 1997 | M57080 | AA | M570806303N007 | $16.33 |
| 8 | July 1, 1997 | M67026 | AA | M203647148P036 | $240.00 |
| 8 | July 7, 1997 | M67026 | AA | M203647148P036 | $240.00 |
| 8 | June 30, 1997 | M67026 | AA | M203647148P036 | $240.00 |
| 8 | July 1, 1997 | M67026 | AA | M42CX67114R075 | $154.50 |
| 8 | July 7, 1997 | M67026 | AA | M42CX67114R075 | $154.50 |
| 8 | July 1, 1997 | M67026 | AA | M670267063P009 | $189.00 |
| 8 | July 7, 1997 | M67026 | AA | M670267063P009 | $189.00 |
| 8 | June 30, 1997 | M67026 | AA | M670267099FUD1 | $4,582.30 |
| 8 | July 1, 1997 | M67391 | AA | M2001071330198 | $8,728.11 |
| 8 | June 30, 1997 | M67391 | AA | M2001071330198 | $8,728.11 |
| 8 | June 30, 1997 | M67391 | AA | M670267139FU23 | $1,508.20 |
| 8 | June 30, 1997 | M53530 | AA | M5353070900391/92 | $15,643.00 |

Prevalidation Data Summary

| | | | | | |
|---|---|---|---|---|---|
| 8 | June 12, 1997 | M67001 | AA | MG500697TG32010 | $35.00 |
| 8 | June 12, 1997 | M67001 | AA | MG500697TG32011 | $35.00 |
| 8 | June 12, 1997 | M67001 | AA | MG500697TG32012 | $35.00 |
| 8 | June 12, 1997 | M67001 | AA | MG500697TG32013 | $35.00 |
| 8 | June 12, 1997 | M67001 | AA | MG500697TG32014 | $35.00 |
| 8 | July 1, 1997 | M20179 | AA | M201797104M493 | $165.00 |
| 8 | July 7, 1997 | M20179 | AA | M201797104M493 | $165.00 |
| 8 | June 30, 1997 | M20179 | AA | M201797104M493 | $165.00 |
| 8 | July 1, 1997 | M20179 | AA | M201797104M494 | $55.00 |
| 8 | July 7, 1997 | M20179 | AA | M201797104M494 | $55.00 |
| 8 | June 30, 1997 | M20179 | AA | M201797104M494 | $55.00 |
| 8 | July 10, 1997 | M20360 | AA | M216257118P003 | $75.00 |
| 8 | July 1, 1997 | M27100 | AA | M216257118P003 | $75.00 |
| 8 | July 7, 1997 | M27100 | AA | M216257118P003 | $75.00 |
| 8 | July 1, 1997 | M27100 | AA | MML2047108A011 | $17,491.70 |
| 8 | June 30, 1997 | M27100 | AA | MML2047108A011 | $17,491.70 |
| 8 | July 1, 1997 | M57080 | AA | M009207120A020 | $221.79 |
| 8 | July 1, 1997 | M67026 | AA | M203647142P838 | $105.76 |

| Error Code | Reason | Total Document # | Dollar Value |
|---|---|---|---|
| 1 | No Obligation Present | 84 | $ 182,689.58 |
| 2 | Incorrect Document Number | 32 | $ 183,205.11 |
| 3 | Resident on the M&S Error File | 11 | $ 18,602.13 |
| 4 | Record Inactive | 1 | $ 138.80 |
| 5 | Insufficient Obligated Funds | 9 | $ 92,390.37 |
| 6 | ACRN Problem | 3 | $ 252.18 |
| 7 | System Problem, Recommend Override. | 5 | $ 52,880.81 |
| 8 | Item is a duplicate on prevalidation report | 33 | |

Prevalidation Data Summary

# APPENDIX B: INTEREST CALCULATIONS

| Document Number | Date Appeared on Preval Report | Date Paid | Days to Payment* | Days Late | Payment Amount | Interest Accrued 6.375% ** |
|---|---|---|---|---|---|---|
| M216257169P001 | 7-Jul-97 | 10-Jul-97 | 23 | 0 | $ 225.00 | $ - |
| M213106296F050 | 26-Jun-97 | 1-Jul-97 | 25 | 0 | $ 920.00 | $ - |
| M271397092A157 | 26-Jun-97 | 7-Jul-97 | 30 | 0 | $ 199.15 | $ - |
| M2715071390006 | 26-Jun-97 | 1-Jul-97 | 25 | 0 | $ 60.00 | $ - |
| M5007571030064 | 26-Jun-97 | 7-Jul-97 | 31 | 1 | $ 337.50 | $ 0.06 |
| M5007770350001 | 26-Jun-97 | 7-Jul-97 | 30 | 0 | $ 1,168.70 | $ - |
| M5353071600528 | 30-Jun-97 | 1-Jul-97 | 21 | 0 | $ 157.86 | $ - |
| M0002962750001 | 26-Jun-97 | 30-Jun-97 | 24 | 0 | $ 360.67 | $ - |
| M0020770990076 | 26-Jun-97 | 7-Jul-97 | 31 | 1 | $ 38.15 | $ 0.01 |
| M0027270224A38 | 10-Jun-97 | 7-Jul-97 | 47 | 17 | $ 3,780.00 | $ 12.05 |
| M0027270224A39 | 10-Jun-97 | 7-Jul-97 | 47 | 17 | $ 550.00 | $ 1.75 |
| M008707028N114 | 26-Jun-97 | 1-Jul-97 | 25 | 0 | $ 18.94 | $ - |
| M008707133N177 | 10-Jun-97 | 7-Jul-97 | 47 | 17 | $ 124.78 | $ 0.40 |
| M009207140A023 | 26-Jun-97 | 1-Jul-97 | 25 | 0 | $ 94.00 | $ - |
| M570806303N007 | 26-Jun-97 | 1-Jul-97 | 25 | 0 | $ 16.33 | $ - |
| M203647148P036 | 10-Jul-97 | 7-Jul-97 | 47 | 17 | $ 240.00 | $ 0.77 |
| M42CX67114R075 | 30-Jun-97 | 7-Jul-97 | 27 | 0 | $ 154.50 | $ - |
| M670267063P009 | 26-Jun-97 | 7-Jul-97 | 31 | 1 | $ 189.00 | $ 0.04 |
| M670267099FUD1 | 26-Jun-97 | 30-Jun-97 | 24 | 0 | $ 4,582.30 | $ - |
| M2001071330198 | 10-Jun-97 | 1-Jul-97 | 41 | 11 | $ 8,728.11 | $ 18.00 |
| M670267139FU23 | 26-Jun-97 | 30-Jun-97 | 24 | 0 | $ 1,508.20 | $ - |
| M5353070900391 | 26-Jun-97 | 30-Jun-97 | 24 | 0 | $15,643.00 | $ - |
| MG500697TG32010 | 4-Jun-97 | 12-Jun-97 | 28 | 0 | $ 35.00 | $ - |
| MG500697TG32011 | 4-Jun-97 | 12-Jun-97 | 28 | 0 | $ 35.00 | $ - |
| MG500697TG32012 | 4-Jun-97 | 12-Jun-97 | 28 | 0 | $ 35.00 | $ - |
| MG500697TG32013 | 4-Jun-97 | 12-Jun-97 | 28 | 0 | $ 35.00 | $ - |
| MG500697TG32014 | 4-Jun-97 | 12-Jun-97 | 28 | 0 | $ 35.00 | $ - |
| M201797104M493 | 26-Jun-97 | 7-Jul-97 | 31 | 1 | $ 165.00 | $ 0.03 |
| M201797104M494 | 26-Jun-97 | 7-Jul-97 | 31 | 1 | $ 55.00 | $ 0.01 |
| M216257118P003 | 30-Jun-97 | 10-Jul-97 | 30 | 0 | $ 75.00 | $ - |
| MML2047108A011 | 10-Jun-97 | 1-Jul-97 | 41 | 11 | $17,491.70 | $ 36.08 |
| M009207120A020 | 26-Jun-97 | 1-Jul-97 | 25 | 0 | $ 221.79 | $ - |
| M203647142P838 | 30-Jun-97 | 1-Jul-97 | 21 | 0 | $ 105.76 | $ - |
| | | | | | Total Interest | $ 69.20 |

* When detemining the number of days to payment, the assumption was made that a document number was not entered in the prevalidation system before the 20th day of the payment period.

** 6.375% was used to determine the total penalty interest charges owed as a result of late payment on an invoice. This rate does fluctuate.

# APPENDIX C: ACRONYMNS

| | |
|---|---|
| AAA | Authorization Accounting Activity |
| AAS | Allotment Accounting System |
| ACRN | Accounting Classification Reference Number |
| APPN | Appropriation |
| ARS | Automated Requisition System |
| BCAS | Base Contracting Automated System |
| CDPA | Central Design and Programming Activity |
| CERPS | Centralized Expenditure Reporting Processing System |
| CFO | Chief Financial Officers Act |
| CMC | Commandant of the Marine Corps |
| DAO | Defense Accounting Office |
| DBOF | Defense Business Operations Fund |
| DFAS | Defense Finance and Accounting Service |
| DFAS-HQ | Defense Finance and Accounting Service, Headquarters |
| DFAS-KC | Defense Finance and Accounting Service, Kansas City |
| DFAS-CO | Defense Finance and Accounting Service, Columbus |
| DoD | Department of Defense |
| DODIG | Department of Defense Inspector General |
| DODINST | Department of Defense Instruction |
| DON | Department of the Navy |

| | |
|---|---|
| DOV | Disbursing Officer Voucher |
| DSSC | Direct Supply Support Center |
| FAA | Funds Administering Activity |
| FM | Financial Management |
| FSSG | Force Service Support Group |
| FY | Fiscal Year |
| FYTD | Fiscal Year to Date |
| GAO | General Accounting Office |
| GSA | General Service Administration |
| HAS | Headquarters Accounting System |
| HQMC | Headquarters, Marine Corps |
| JON | Job Order Number |
| MARFORLANT | Marine Corps Forces, Atlantic |
| MARFORPAC | Marine Corps Forces, Pacific |
| MAW | Marine Air Wing |
| MCDN | Marine Corps Data Network |
| MEF | Marine Expeditionary Force |
| MEU | Marine Expeditionary Unit |
| MOCAS | Mechanization of Contract Administration Services |
| MSC | Major Subordinate Command |
| M&S | Material and Service |
| NULO | Negative Unliquidated Obligation |

| | |
|---|---|
| O&M | Operations and Maintenance |
| O&M,MC | Operations and Maintenance, Marine Corps |
| O&M,N | Operations and Maintenance, Navy |
| OPBUD | Operational Budget |
| OPLOC | Operating Location |
| OPV | On-line Prevalidation System |
| PMC | Procurement, Marine Corps |
| RASC | Regional Automated Service Center |
| RCO | Regional Contracting Office |
| SABRS | Standard Accounting, Budgeting, and Reporting System |
| SDN | Standard Document Number |
| SECDEF | Secretary of Defense |
| SRIG | Surveillance Reconnaissance, and Intelligence Group |
| STARS | Standard Accounting and Reporting System |
| TOA | Total Obligational Authority |
| UMD | Unmatched Disbursement |

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